



**INSURANCE REGULATORY
AUTHORITY**

**NATIONAL SURVEY ON ENTERPRISES PERCEPTION
OF INSURANCE IN KENYA**

**REPORT
BY**

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ACRONYMS AND ABBREVIATIONS

FGDs	Focus Group Discussions
ICT	Information and Communication Technology
IDIs	In-depth Interviews
IRA	Insurance Regulatory Authority
CSP	Corporate Strategic Plan

EXECUTIVE SUMMARY

The insurance industry plays a significant role in the growth and development of the financial services sector in Kenya. It is identified in the Vision 2030 as critical in the transformation of Kenya under the economic pillar. Over time, the industry has continued to be characterized by low penetration levels at about 3% due to a multiplicity of factors such as access to insurance, willingness and ability to pay for insurance, existing distributions channels, adverse selection and information asymmetry among others.

Given that access to insurance is an important element of economic development, low levels of insurance penetration among the general populace remains a key challenge. The consuming public is either not served or is underserved. Nonetheless, the general consensus is that not being served does not mean that they are unservable or not being insured doesn't imply they are uninsurable.

In order to help understand some of the identified challenges and how they affect different market segments, a national survey was conducted in Kenya in July 2011 with the aim of determining the perception of insurance among the business enterprises especially small and medium enterprises and specifically to determine Enterprises' Awareness, Knowledge, Attitude and Practices and Sources of Information on insurance, determine Mitigating measures/coping strategies that they put in place; Access baseline data on perception of insurance across a range of variables; and On the basis of the findings, provide recommendations on measures to be put in place in order to address the identified challenges.

From the study, Awareness of insurance and products available on the market was found to be high in motor related products. 79% of the respondents are aware at spontaneous level followed by medical insurance and burglary/theft at 76% and 73% respectively. Low level of awareness was noted in marine, engineering, aviation, work men compensation, agricultural insurance and liability insurance.

Among the key challenges facing small and medium enterprises in Kenya are theft, competition, cost of doing business, risk of losing assets through fire, access to credit, politics, drought and occupation health hazards etc.

The biggest risks that would have a greater impact on performance of the business were; theft, competition, fire and cost of doing business, were ranked high in that order. In terms of risk ever encountered in their business the most significant mention included competition, cost of doing business, theft and access to credit in that order.

Business enterprises indicated that among the key sources of information on insurance was in school/colleges followed by insurance agents/brokers. This is a pointer on the key role played by institutions of learning in imparting knowledge on insurance as part of entrepreneurship.

The following factors were found to be the major barriers to insurance uptake by most enterprises; it is Expensive (34%), Business is still young 17%, Lack of knowledge about insurance (17%), dishonesty of Insurance providers (9%), too much time taken in processing of claims (4%) and lack of specific products that fits their business (6%) among others.

Form the findings of the survey; it is imperative that educating owners of business enterprises on insurance and available products and reducing the cost of accessing insurance services remain one among the key issues that will help enhance access to insurance among this target group.

1.0 INTRODUCTION

1.1 Background of the survey

The financial sector has a strategic role in the promotion of economic growth through channels of marginal productivity of capital by channeling saving to investments. In this, insurers play a critical role. Through selling insurance policies, they collect funds which can then be transferred to deficit economic activities for financing real investment.

The insurance industry in Kenya is growing in importance and it has been identified in the Vision 2030 as critical in the country's transformation under the economic pillar. Despite this, the industry is still characterized by low penetration levels, currently estimated at 3%. The relatively lower level of insurance penetration in Kenya has been attributed to a number of factors including lack of awareness on available insurance products, low income levels among the key consuming public, perceived low rate of returns for life policies, cumbersome claim settlement procedures, lack of trust of insurance players, and expensive premiums among others.

Having considered some of these challenges and given the diversity of the various consumers of insurance services, a survey was conducted to assess how small and medium enterprises manage risk and what they think of insurance. The main objective was to determine the enterprise perception of insurance and factors affecting the perceptions. The results of the survey do provide a firm basis for evidence-based planning by the Authority. The baseline survey results will also contribute to the establishment of a reference point upon which progress made in the implementation of these strategies and policies will be benchmarked, monitored and evaluated.

1.2 Objectives of the Survey

The primary objective of the study was to determine the enterprises' perception of risks and how risks are managed in Kenya. Specifically, the survey sought to assess;

- i. Enterprises' Awareness, Knowledge, Attitude and Practices and Sources of Information on insurance
- ii. Mitigating measures/coping strategies that they put in place;
- iii. Access baseline data on perception of insurance across a range of variables; and
- iv. On the basis of the findings, provide recommendations on measures to be put in place in order to address the identified challenges.

2.0 METHODOLOGY

2.1 Sampling Design

The survey was done in major towns representing the 8 provinces as known before the promulgation of the new constitution. The towns selected were; Nairobi, Nakuru, Kisumu, Meru, Kakemega, Mombasa, Garrisa and Nyeri. From each town selected, purposive sampling was applied to sample enterprises within different sectors of the economy namely; Wholesalers & retail, Service Industry, Transport and Communication, Financial services, Education, Energy, Agriculture, Building and Construction, NGOs and Manufacturing.

2.2 Data collection

Three enterprises per sector from each town were selected using purposive sampling thus a sample of 240 was expected. Well structured interviews were used to gather information during the survey, in total 215 interviews were successfully completed.

2.3 Data Analysis

The analysis was based on data received from all respondents that participated in the survey. The data collected was statistically treated, using descriptive statistics. The frequency of responses was examined for each questionnaire item, and with respect to this report, analysis based on percentage distribution has been utilized, however, with limited use of mean scores. The higher the mean score for an item, the greater degree of satisfaction was assigned to the item by respondents. The optimal score of 5.00 points means that the respondents completely agreed with the statement put forth.

2.4 Limitations

The descriptive analysis applied on the data for county estimates is subject to one limitation, which relates primarily to the low sample base used per county. It should be noted that results are shown for the sub-group, although

the bases for counties categories are quite 'thin' and are only meant to provide indicative figures , thus caveat should be applied when interpreting the result.

3.0 FINDINGS OF THE STUDY

This section of the report presents detailed analysis of the quantitative data collected.

3.1 Characteristics of the data

3.1.1 Sampled Business Enterprises

The sampled business enterprises were in Nairobi, Nyeri, Nakuru, Kisumu, Kakamega, Meru, Garissa and Mombasa representing samples from the provinces as known before the promulgation of the new constitution. **Figure 1** shows the distribution of sampled business enterprises by province.

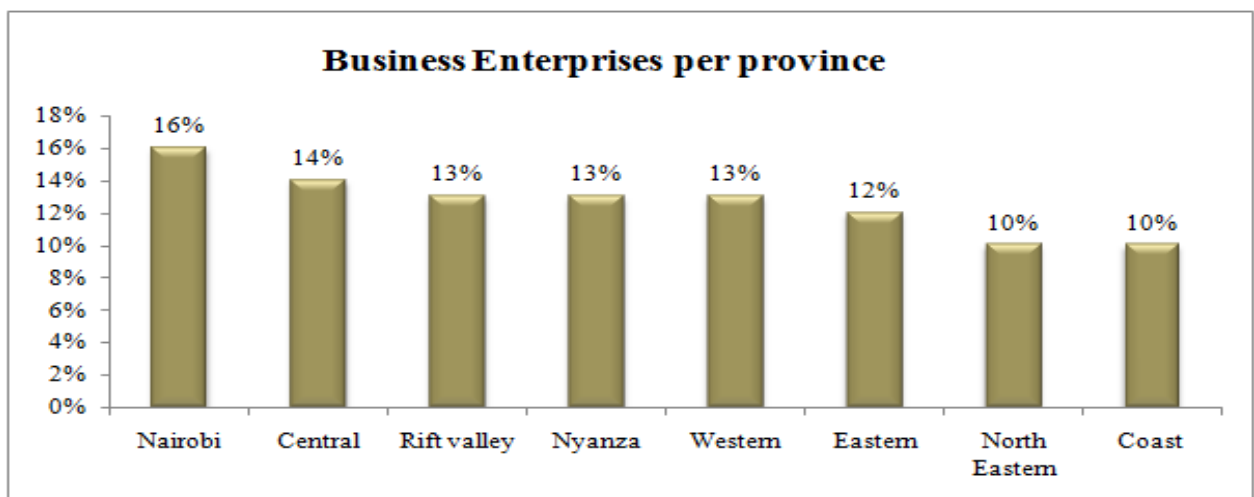


Figure 1: Sampling Areas

Source: Survey data

Figures may not add to 100% due to rounding off

3.1.2 Types of enterprises

Majority of the enterprises in the survey were from the Wholesale and retail Business sector (24%), service industry (19%). Other sectors which provided a number of enterprises in the survey include manufacturing (3%), building and construction (4%), and NGO (4%). See Figure 2.

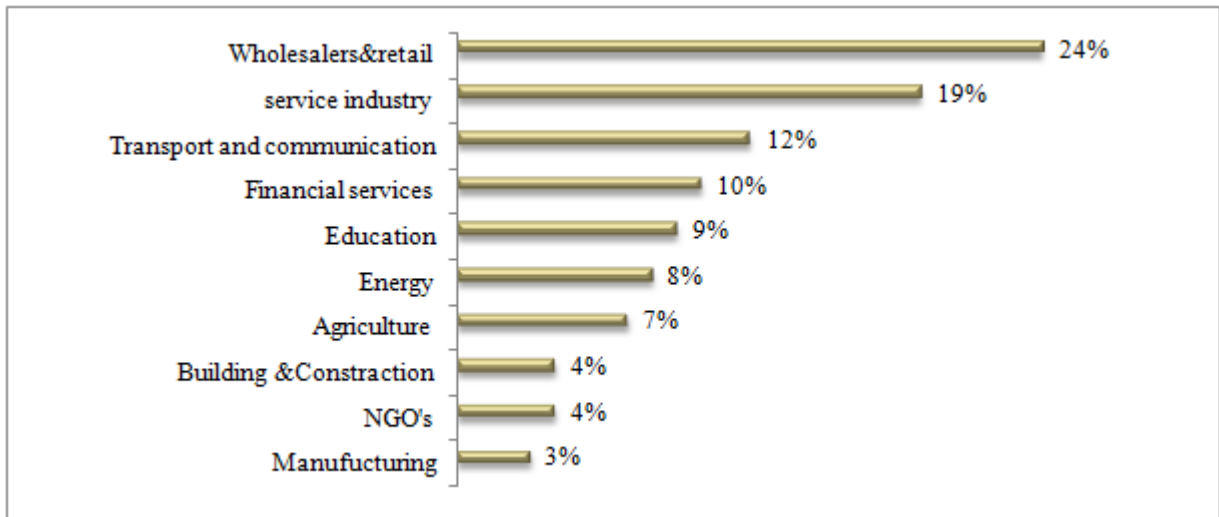


Figure 2: Type of Enterprises
 Source: Survey data

3.1.3 Size of the enterprise

(71%) of the interviewed enterprises were classified as small, 22% as medium and 7% as large. The classification on size was based on the number of employees and the gross annual turnover of the Enterprise.

3.2 Awareness, Knowledge, Attitude and Practices and Sources of Information

3.2.1 Awareness

3.2.1.1 Awareness of Risks

Awareness of risks was analysed in terms of challenges faced, biggest risks that would have a greater impact on performance of the business and the risks ever encountered by the enterprises.

In terms of challenges encountered by enterprises; respondents ranked theft, competition, fire, cost of doing business, access to credit, politics, drought and occupation health and safety in that order. The survey found that biggest risks that would have a greater impact on performance of the

business were; theft, competition, fire and cost of doing business ranked in that order. In terms of risk ever encountered in their business the most significant risk mentioned include competition, cost of doing business, theft and access to credit in that order , **Figure 3** is a summary of enterprises awareness of risks .

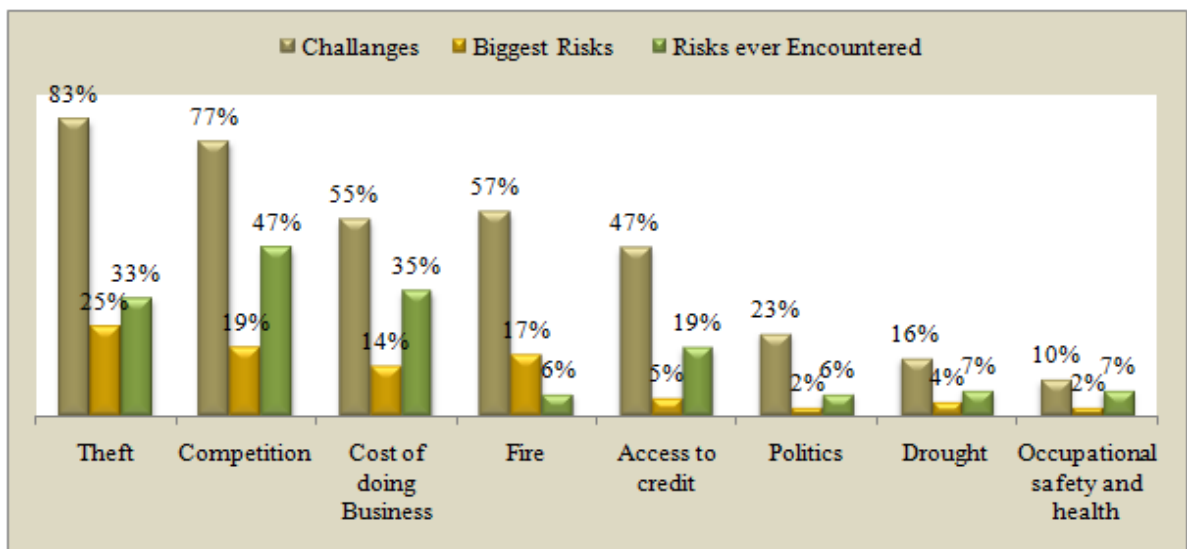


Figure 3: Awareness of Risks
Source: Survey data

3.2.1.2 Product Awareness and Usage

Awareness of insurance products at spontaneous level is high in motor related products, 79%, followed by medical insurance and Theft at 76% and 73% respectively. For short term products, low level of awareness was noted in marine, engineering, aviation, work men compensation act, agricultural insurance and liability. For long term products awareness of the education policy is high at 49%.

Most of the respondents currently have Medical insurance policy (32%) followed by Motor-private (29%) for short term products and Education policy (9%) followed by group life policy (7%) for long term products .Lapsed usage of insurance policies is evident in both long term and short term products; the percentage of respondents who have ever purchased policies is less than

those who currently have their policies. **Table 1** is a summary of product awareness and usage.

Table 1: Insurance Product Awareness and usage

Policy	Spontaneous awareness	Total awareness	Ever purchased	Currently have	Will have in future
Short term products					
Motor - private vehicles	79%	91%	32%	29%	3%
Medical insurance	76%	87%	38%	32%	6%
Theft/ burglary	73%	87%	31%	26%	6%
Fire - domestic	64%	81%	10%	7%	3%
Motor - commercial vehicles	61%	83%	26%	23%	2%
Fire -industrial	61%	79%	28%	23%	5%
Motor - PSV	60%	82%	14%	12%	2%
Personal accident	59%	83%	19%	15%	3%
Liability	31%	47%	14%	10%	3%
Workmen compensation act/WBA	31%	48%	14%	14%	0%
Agricultural/livestock insurance	15%	44%	2%	0%	2%
Engineering	14%	24%	5%	2%	2%
Marine	13%	28%	2%	1%	0%
Aviation	12%	25%	3%	2%	1%
Long term products					
Education	49%	67%	13%	9%	4%
Group life	33%	51%	11%	7%	4%
Pension annuities	17%	35%	8%	4%	3%
Deposit administration	4%	10%	2%	1%	1%
Unit linked insurance	3%	7%	0%	0%	0%
Annuity	2%	16%	1%	0%	1%

Source: Survey data

3.2.1.2.1 Reasons for lapsed Usage of Insurance

For the respondents with a lapsed usage of insurance policies, loss of trust in insurance was the highest contributing factor (33%) followed by high cost

(28%), lack of funds (22%) while only 17% of lapsed usage can be accounted to maturity of the products. See **Figure 4**.

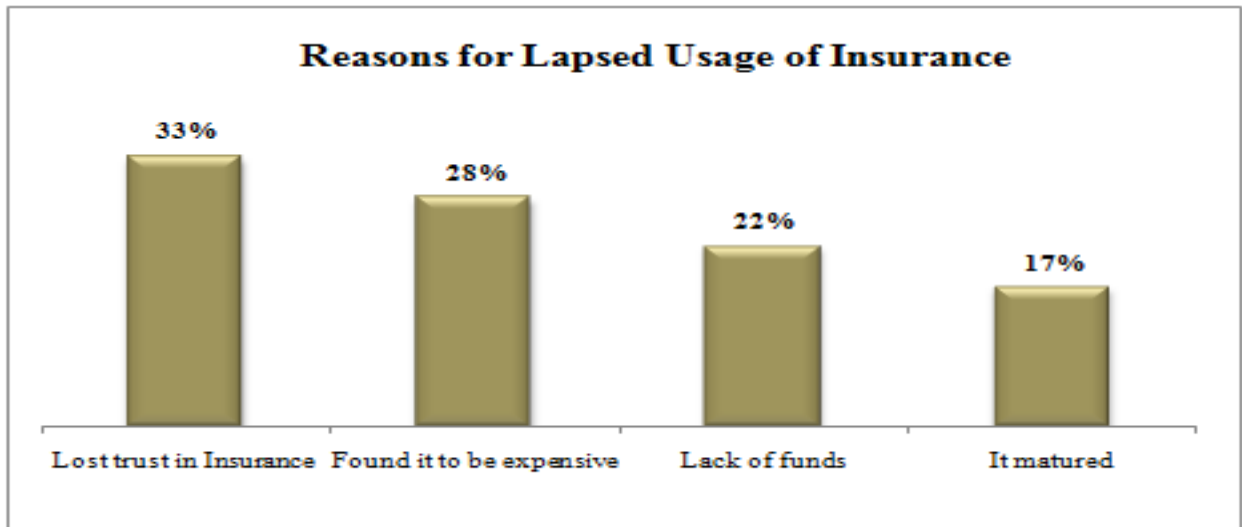


Figure 4: Reasons for Lapsed Usage of Insurance
Source: Survey data

3.2.2 Insurance Knowledge

There is a very high level of knowledge on insurance by enterprises as indicated in **Figure 5**; 86% of the respondents surveyed indicated that they have ‘heard of insurance and know what it means’, while 9% indicated that they have ‘heard of insurance but don’t know what it means’. Only 5% indicated that that they have ‘never heard of insurance’.

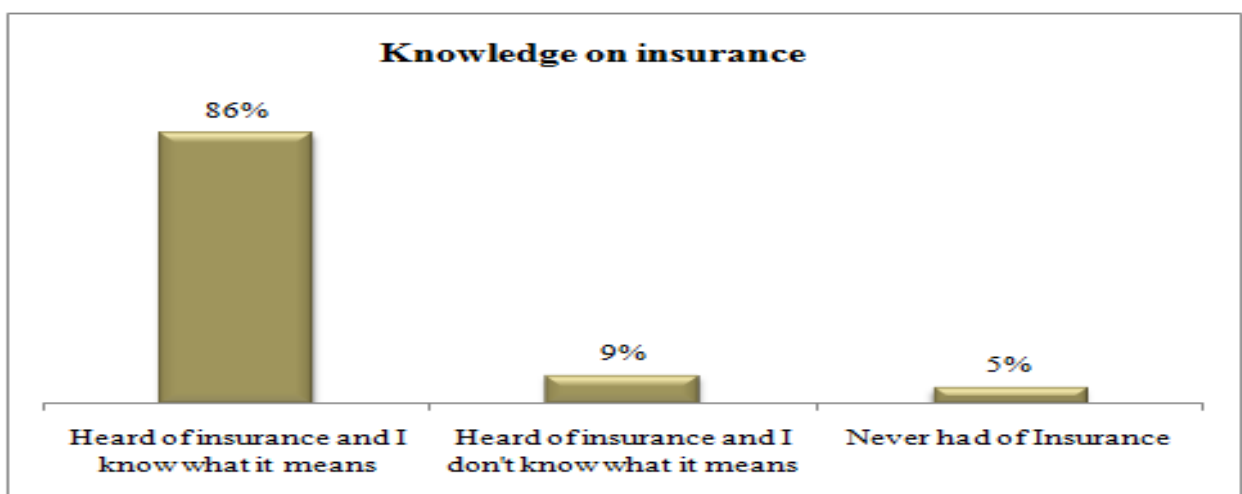


Figure 5: Knowledge on Insurance
Source: Survey data

3.2.3 Insurance Attitudes and Practices

3.2.3.1 Factors hindering Purchase of Insurance

Enterprises who have never had insurance indicated the following reasons in **Table 2** as barriers;

Table 2: Barriers to purchase of insurance

Broad reasons	Specific Reasons	Percent
Affordability/ financial issue	It is Expensive	28%
	Lack of enough money	6%
	Business is still young	17%
Understanding of insurance	Lack of knowledge about insurance	17%
Negative Perceptions	Insurance providers are conmen	9%
	Processing Claims take too long	4%
Access to insurance	Available products do not fit my Business	6%
Religion	My religion does not appreciate insurance	4%

Source: Survey data

3.2.3.2 Assessment of current policies

An assessment of current policies was done based on the extent to which it met the needs of the consumers and affordability of the existing policies, a very high proportion (79%) indicated that the policies met their business needs.

3.2.3.3 Affordability of Insurance

In terms of affordability of insurance policies, over 50% of the respondents indicated that the insurance policies are unaffordable/quite unaffordable. Across the survey demographics, no significant differences were noted in the rural-urban divide. See **Figure 6**.

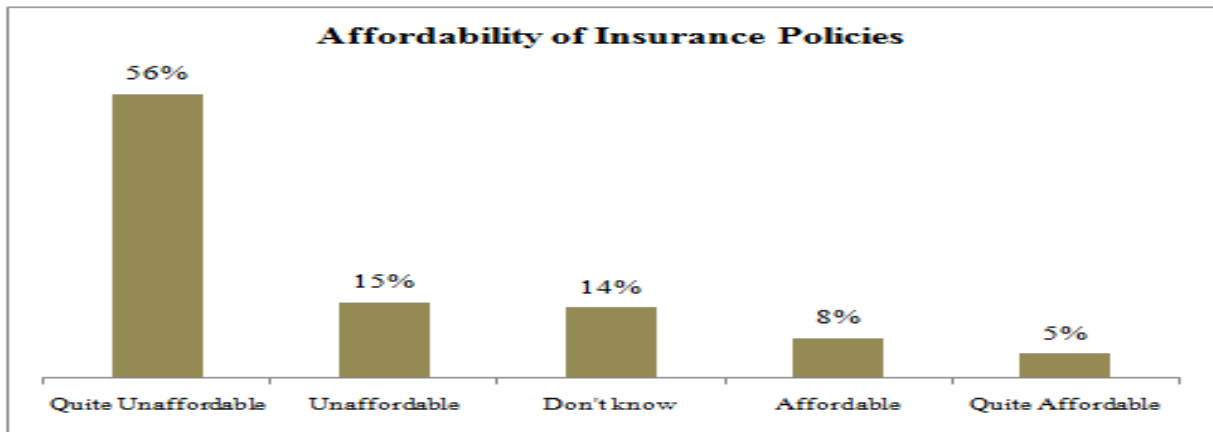


Figure 6: Affordability of Insurance Policies
Source: Survey data

3.2.3.4 Information and accessibility of policy Document

Most of the respondents have their policy documents with them (87%) although a different scenario is seen when it comes to reading the document with only 68% admitting to having actually read the policy document. See **Figure 7**.

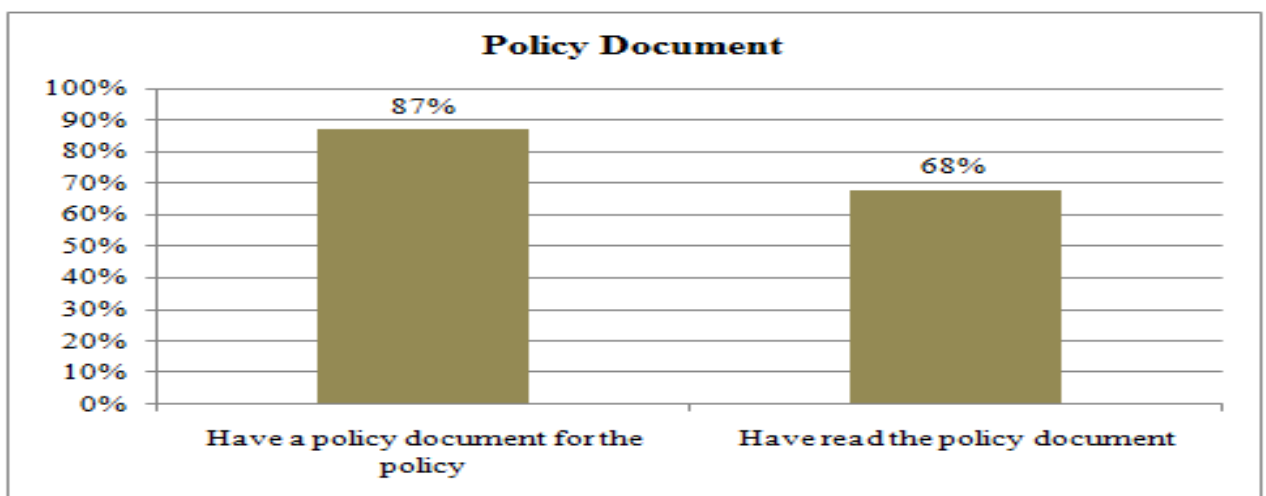


Figure 7: Availability of policy document
Source: Survey data

3.2.4 Source of Information on Insurance

Respondents indicated their first sources of information on insurance to included, school/colleges (34%) followed by insurance agents (26%), as shown in **Figure 8**. This is a pointer to the key role played by institutions of learning in imparting knowledge on insurance as part of entrepreneurship and general business knowledge and also the role played by insurance agents when it comes to accessing information on insurance.

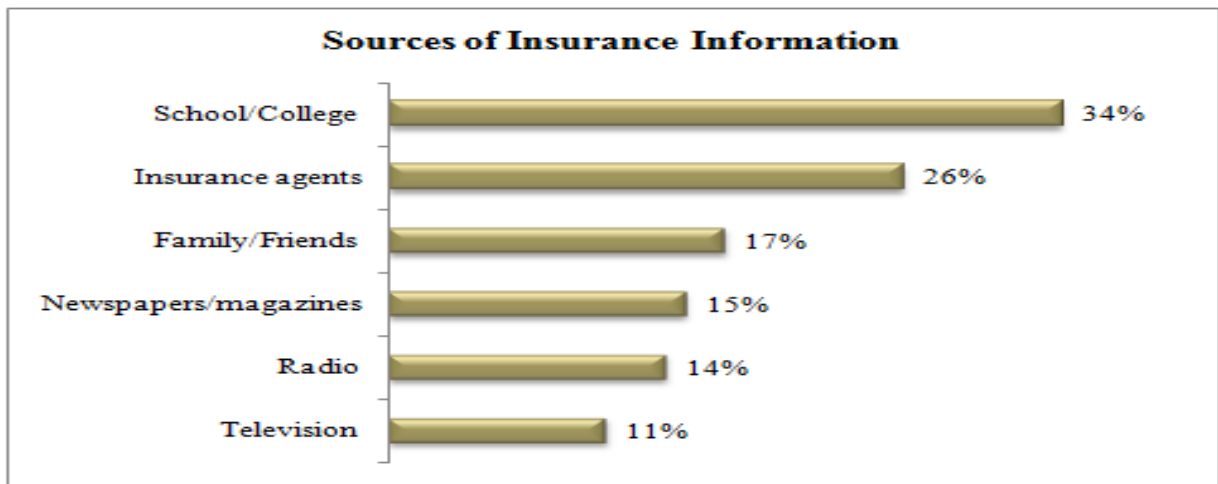


Figure 8: Sources of Insurance Information
Source: Survey data

3.2.4.1 Information Gap

Fifty nine percent (59%) of the respondents indicated that they had sufficient information to enable them make decisions to insure their enterprises, however 73% indicated that they would require further information on insurance and among the key information they would require include different categories of policies available (45%), Insurance benefits (23%), How insurance work (22%) and compensation procedure (20%).see **Figure 9**.

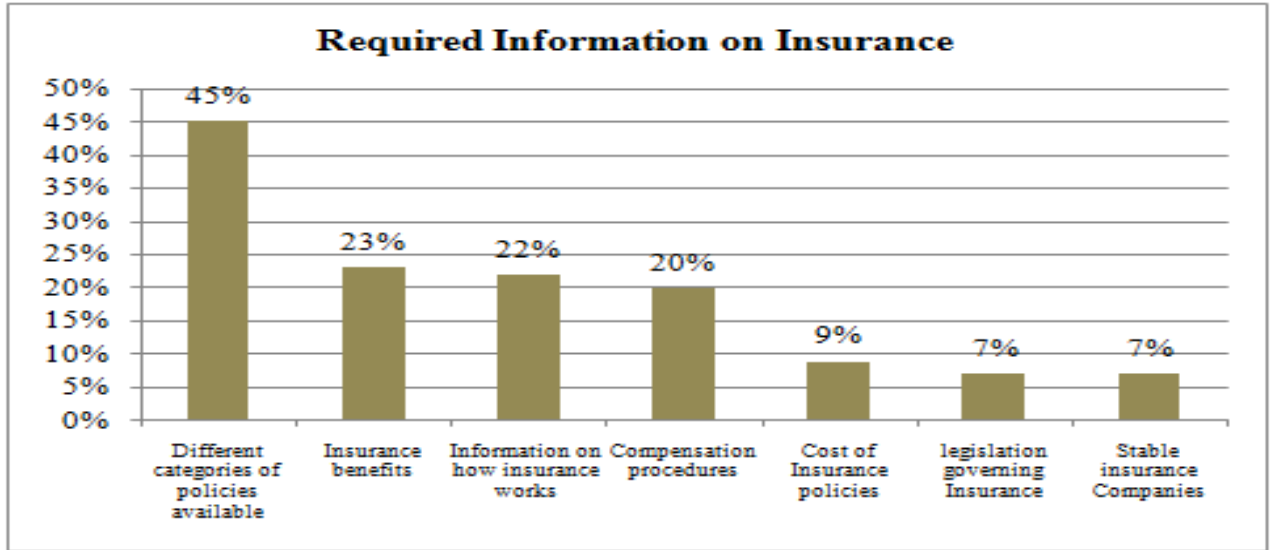


Figure 9: Information Requirements about Insurance
Source: Survey data

3.3 Mitigation and Management of Risks

3.3.1 Ways of mitigating risks

Respondents had different ways of mitigating specific risk; **Table 3** summarizes risk mitigation measures.

Table 3: Risk mitigation measures

Risk	Ways of Managing Risks	Percent of responses
Theft	Take Insurance	32%
	Use up my savings	24%
	Borrow money	15%
	Do Nothing	13%
	Increase security	8%
	Seek for help from family members	8%
Fire	Take Insurance	38%
	Do Nothing	23%
	Borrow money	10%
	Use up my savings	11%
	Cut cost	10%
	Sell assets	8%

Drought	Do nothing	50%
	use up my savings	31%
	Seek for help from family members	18%
Politics	Do nothing	46%
	Change of procedures of work	15%
	Borrow money	8%
	Use up my savings	8%
	Customer sensitization	8%
	Improving quality	8%

Source: survey data

3.3.2 Ways of Managing Risks

From the survey, different ways of coping with the biggest risk were it to happen were identified as follows; 27% appear not to be prepared and indicated they would do nothing, 19% indicated that they would use up their savings, while 17% reported that they would go for an insurance cover. However, only 2% of the participants indicated that they would ask family members to help and another and 2% would sell their assets. **Figure 10** is a summary of how biggest risks are managed by enterprises.

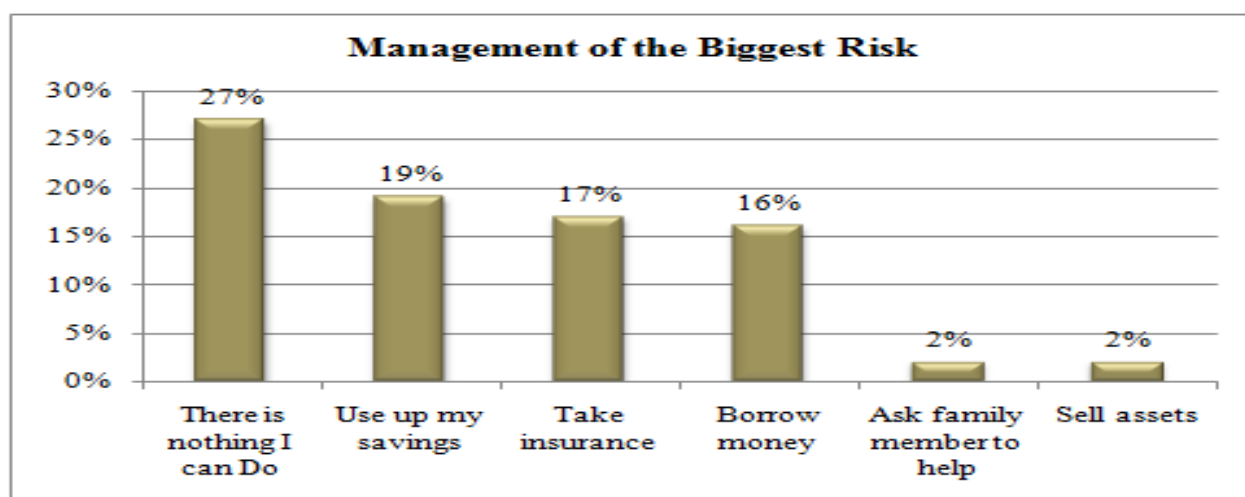


Figure 10: Management of the Biggest Risk
Source: Survey data

3.4 General Experience

3.4.1 Experience with Insurance providers

Experience with insurance providers is considered critical in establishing the attitudes and behaviors of insurance consumers toward the provider. 68% of the respondents indicated that they had had positive experience with the insurance providers as summarized in **Table 4**.

Table 4: Experience with Insurance providers

Positive experiences:	Percent
Good services	43%
Served well	9%
Very friendly	4%
Reliable	4%
Prompt services	3%
Affordable rates	3%
Honors Claims	2%
Negative experiences:	
Long ineffective procedures	11%
Time consuming, slow service	6%
Insufficient information and miscommunication	5%
Refused to honor claims	3%
Expensive premiums	2%

Source: Survey data

3.4.2 Experience when making a claim

44% of the respondents who have ever had insurance indicated that they have at one point made a claim, on time taken to process the claim most respondents experience less than a month (41%) and 1 to 3 months (23%), as presented in **Figure 11**.

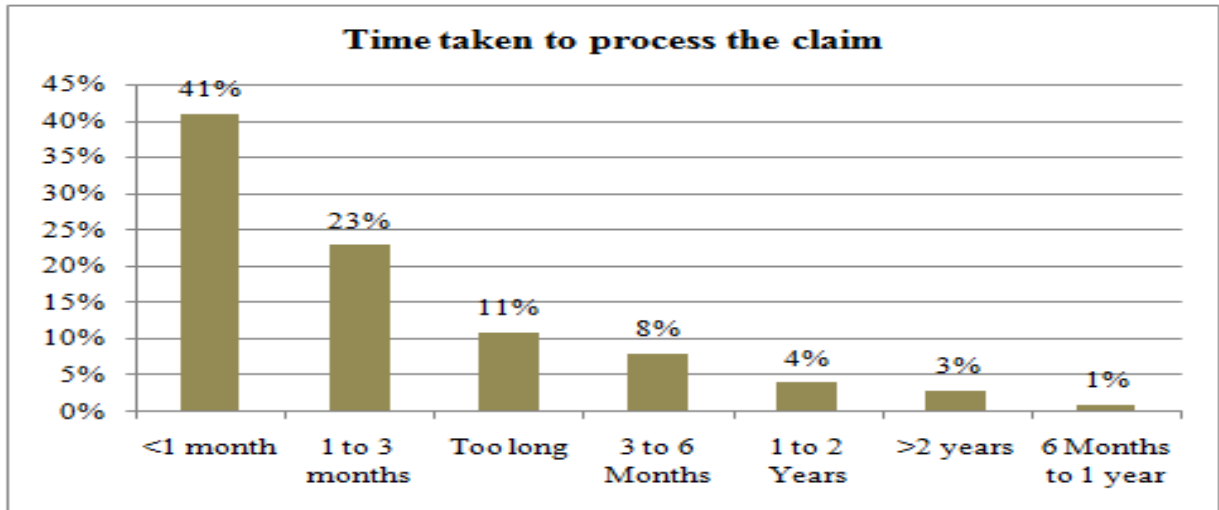


Figure 11: Time taken to process the claim
Source: Survey data

Further, those respondents who admitted to have made claims indicated that their insurance providers accepted liability (86%) and honored the claims (83%) as presented in **Figure 11**.

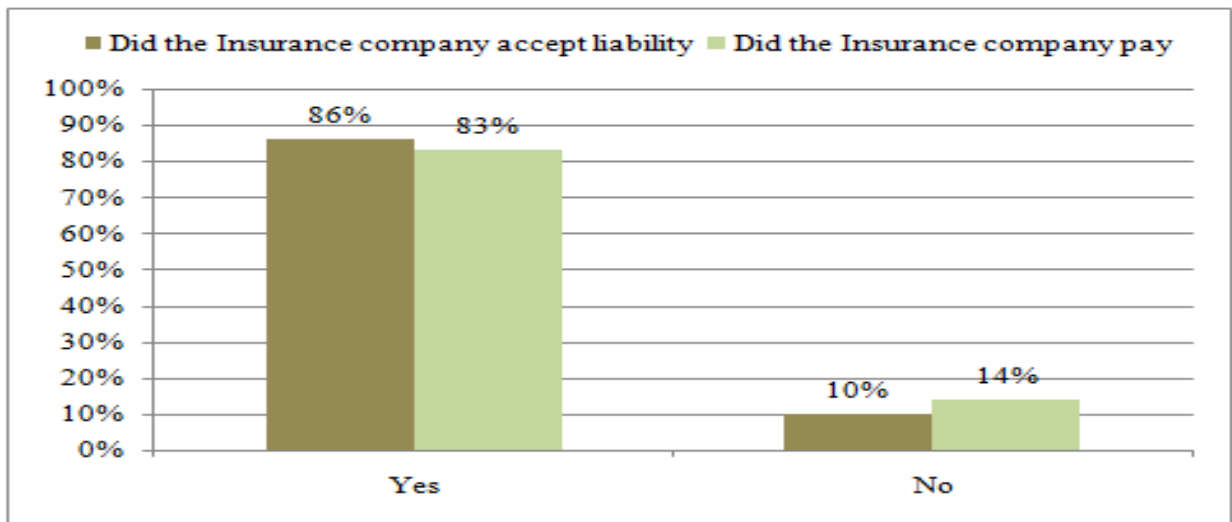


Figure 12: Payment of claims
Source: Survey data

3.5 Suggestions on how to increase access to insurance

Most respondents indicated that educating people on the importance of insurance (45%) and reducing the premiums (27%) would be the most effective way of enhancing access to insurance. Other factors include developing products that address the specific need of the market segment, ensuring that insurers promptly pay claims, as they fall due, enhancing on the image of insurance and honesty as shown in **Figure 13**.

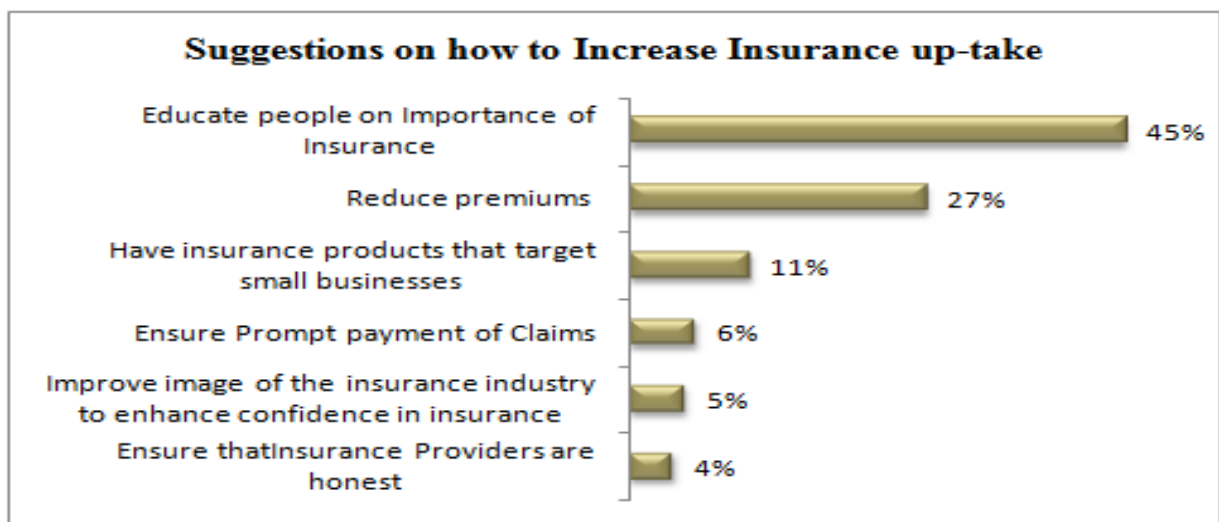


Figure 13: Suggestions on how to Increase Insurance up-take
Source: Survey data

4.0 CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusions

The primary objective of the study was to determine the enterprise perception of risks and how risks are managed in Kenya.

In terms of challenges encountered by enterprises; theft, competition, cost of doing business, fire, access to credit, politics, drought and occupation health and safety was ranked in that order. In terms of risk ever encountered in business the most significant mention include competition, cost of doing business, theft and access to credit in that order.

First sources of awareness are school/colleges followed by insurance agents/brokers. This is a pointer on the key role played by institutions of learning in imparting knowledge on insurance as part of entrepreneurship.

Educating people on importance of insurance and reducing the premiums would be the most effective way of increasing the penetration of insurance services in the country.

Awareness of insurance products is high in motor related products, followed by medical insurance and Theft for long term products. For short term products, low level of awareness was noted in marine, engineering, aviation, work men compensation act, agricultural insurance and liability. For long term products awareness of the education policy is high

4.2 Recommendations

Based on the findings of the survey, a number of recommendations can be made;

1. There is need for concerted efforts in educating small and medium enterprises on the importance of insurance and the need to take insurance.
2. It is important that insurers develop products that address the specific needs of business enterprises given the challenges that such enterprises continue to face in terms of cost of doing business and affordability of insurance services.
3. Given the challenges business enterprises face given that their incomes are irregular and cyclical, there is need for insurers to consider accepting seasonal incomes and accommodate irregular premium payments; Customers should be allowed to pay premiums in installments and be assisted in premium financing with banks and microfinance institutions. This may also include companies developing strategic partnerships with other sectors like mobile phone companies so as to facilitate strategies of premium payments using their money transfer options.
4. Insurers should work on a common platform of enhancing the image of intermediaries through training and capacity development with regard to selling skills; consumer needs identification as well as ensuring adherence to set code of conduct

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